

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

ORIGINAL

In the Matter of

Federal-State Joint Board On Universal
ServiceCC Docket Nos. 96-45/97-160
APD No. 98-1

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JUN 25 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

COMMENTS OF CENTENNIAL CELLULAR CORP.

1. Introduction.

Centennial Cellular Corp. ("Centennial") is a Commercial Mobile Radio Service ("CMRS") provider in Puerto Rico and elsewhere. Centennial's CMRS customers in Puerto Rico include more than 5,000 subscribers to Centennial's "Home Phone" service, which uses CMRS technology to provide basic telephone service to residence customers — primarily customers that the Puerto Rico Telephone Company ("PRTC") has been unable or unwilling to serve. Centennial also owns the only operational landline-based competitive local exchange carrier in Puerto Rico, Lambda Communications, Inc. ("Lambda").

Both Centennial's Puerto Rico CMRS subsidiary and Lambda have been designated "eligible telecommunications carriers" by the Telecommunications Regulatory Board of Puerto Rico (the "Board"). In these circumstances, Centennial has a direct and compelling interest in the determination of universal service funding amounts for Puerto Rico, both as a potential recipient of universal service funds and as a competitor to PRTC. Centennial, therefore, is submitting these comments for the Commission's consideration.¹

¹ See Public Notice, *Common Carrier Bureau Seeks Comment on State Forward-Looking Cost Studies For Universal Service Support*, CC Docket Nos. 96-45, 97-160; APD No. 98-1 (released June 4, 1998).

Centennial has long been concerned that PRTC is operating in a profoundly inefficient manner. From one perspective, PRTC's inefficiency presents Centennial with marketplace opportunities that might not be available in the presence of a more capable incumbent. PRTC's entrenched monopoly position, however, gives it many opportunities to extract revenues to finance its inefficiencies — and to subsidize competitive services — not only from customers, but from its rivals as well.

The universal service system is one such opportunity. For the foreseeable future, PRTC will receive the overwhelming majority of universal service funding for Puerto Rico. If that funding is set at an unreasonably high level, the result will be a tax (in part on PRTC's competitors) to support PRTC's inefficient operations. Even though Centennial itself is likely to receive some universal service funding as well — and therefore would in some sense benefit from high subsidy levels — in Centennial's view its long term interests are best served by the rapid elimination of unfair subsidies to PRTC so that a competitive market for telecommunications services in Puerto Rico can develop. Centennial is confident of its prospects in such a marketplace.

For this reason, Centennial is deeply concerned about the recent information provided to the Commission by the Board regarding the "economic model selection" to determine federal universal service support for Puerto Rico. Specifically, it seems clear from the information submitted that the Board has inappropriately and unreasonably relied on information that embodies PRTC's past operational inefficiencies, not the "forward-looking economic cost" required by the Commission's Universal Service orders.² Centennial, therefore, respectfully requests that the Commission reject the information submitted by the Board and either adjust it or, at a minimum, direct the

² See Federal-State Joint Board on Universal Service, *Report & Order*, 12 FCC Rcd 8776 (1997) ("*Universal Service Order*") at ¶¶ 224-25, 250. See also Public Notice, *State Forward-Looking Cost Studies for Federal Universal Service Support*, CC Docket Nos. 96-45 and 97-160, DA 98-217 (released February 27, 1998) ("*Public Notice*") at 4-9 (listing criteria applicable to state cost studies).

Board to reconsider its submission and refile information in accordance with the criterion of forward-looking economic cost.

2. Specific Items Of Concern To Centennial.

Centennial is not in a position to critique the information upon which the Board apparently relied in developing its position regarding the amount of universal service support required for Puerto Rico. This situation arises because the Board in large measure relied on data from PRTC as to which PRTC claimed "proprietary" protection. Nonetheless, comments on the following issues are possible simply based on Centennial's knowledge of operating conditions within Puerto Rico, gleaned from its activities over the last two-and-a-half years in direct competition with PRTC.³

a. Percentage Of Local Versus Toll Calls.

The Board has changed the local/toll split from the 81% "local" default value for the Benchmark Cost Proxy Model ("BCPM") to a 54% "local" value based on PRTC's data.⁴ Even assuming that PRTC's information shows that only 54% of the calls on its network are "local," that figure is totally artificial.

As a matter of network engineering, essentially the entire island of Puerto Rico is a single local calling area. Any PRTC line on the island can reach any other PRTC line on the island (as well as most competing providers' lines) by means of a 7-digit call. Callers do not need to dial either "1" or an area code to reach anywhere on the island. Moreover, PRTC has configured all of its central offices to subtend one of

³ All references in this section of these comments are to the letter from the Board to the Commission dated May 8, 1998, but actually indicated as received by the Commission on May 26, 1998. This letter is referred to here as the "Board Submission."

⁴ Board Submission at 1 (Item No. 1).

two tandem switches, both of which are centrally located in the San Juan area. This arrangement is to be distinguished from a situation in which tandems are geographically dispersed to minimize their distance from a logical grouping of subtending end offices. These two tandems, in short, basically serve an integrated Puerto Rico network and do not represent any logical division of the island into two "LATAs" or local calling areas.

Despite having deployed an island-wide "local" network, PRTC has exploited its customers by establishing small local calling areas *for purposes of charging customers toll rates*. As a result, it would not surprise Centennial to learn that — as the data submitted by the Board suggest — nearly half of the calls that PRTC's customers make are classified as "toll" for accounting and rating purposes.

This classification of an excessive number of calls as "toll" for rating purposes, however, is irrelevant to PRTC's *costs* (or the costs that an efficient provider would incur). As noted above, from a network engineering (and, therefore, cost) perspective, essentially all intra-Island calls are properly viewed as "local." Costs that would normally be toll-related (such as additional switch processing time involved in recognizing a dialed "1" as an initial digit and processing time used to determine which carrier should handle a "1+" call, and additional holding time associated with establishing a connection to a long distance carrier) are simply not incurred by PRTC for the vast majority of calls that it classifies as "toll."⁵

The easiest way to solve this problem would be to treat all intra-island calls as local for costing purposes. It would not be difficult to develop an appropriate figure from information regarding PRTC's interstate access calls and minutes of use,

⁵ Centennial believes that classifying an excessive proportion of calls as "toll" will artificially increase the amount of universal service support to which PRTC would be entitled. It would be simple for the Board (or the Commission) to re-run the BCPM without changing the local/toll percentage default value to determine the magnitude of this effect.

because all off-island calls — but no others — will use interstate access services. As another alternative, the model's default value (19% toll calling) could be used.

b. Support Table Ratios — Furniture.

The Board proposes support expense factors that total to 3.53%, versus the default value of 2.63%.⁶ The net increase of 0.9% in support expense (over the default) is comprised of three increases (Motor Vehicles, Other Work Equipment, and Furniture) totalling 1.02%, offset by small decreases in remaining items totalling -0.12%.

The Motor Vehicle category is the largest individual increase. It is at least plausible, however, that providing service in Puerto Rico, which has large, sparsely populated areas separating major cities and towns, could reasonably entail a higher-than-normal motor vehicle expense. By contrast, it is hard to imagine why the support expense for furniture in Puerto Rico should be more than twice as large as the default value contained in the BCPM. Yet the Board has proposed that this support expense percentage be increased from a default value of 0.233% to a value of 0.5723%.

The Board indicates that the "changes made in this table were based on expense data supplied by the incumbent LEC, PRTC."⁷ While Centennial does not doubt that PRTC may have spent more than twice as much on furniture as a more normal LEC would have done, Centennial does not believe that the federal universal support funding mechanism should accommodate such inefficiency. The Commission should reject this higher figure and instead use the BCPM default, in the absence of a much more detailed explanation of why an efficient provider in Puerto Rico would incur such expenses.

⁶ See Board Submission at 2 (Item No. 5) (figures in text are the sum of the default and Board-proposed percentages).

⁷ Board Submission at 2 (Item No. 5).

c. Per Line Monthly Operating Expenses.

As with support expense ratios, the Board relied on data from PRTC to determine the "per line monthly operating expenses" for Puerto Rico.⁸ While it is not possible to determine from the available information precisely why PRTC's costs are so totally out of line with the default values of the BCPM, clearly something is amiss.

The total default value for "expenses per line" for the accounts identified by the Board is \$11.34. The total of the values proposed by the Board for those same accounts is \$26.08 — a 230% increase. In only one category — Poles — is the Board's per-line amount lower than the default, and that lower value is more than offset by significant increases in the values for other outside plant categories.⁹

There is no logical basis for most of the other major variations between the model's default values and those proposed by the Board. Why should "General Support" expenses be nearly four times the default value (\$1.20 vs. \$4.69)? Why should central office equipment switching and transmission expenses be more than five times the default values (\$0.34 vs. \$1.79 [switching]; \$0.23 vs. \$1.31 [transmission])? Why should network operations expense be nearly three times as high as the default value (\$1.33 vs. \$3.73)? Why should General Support expense be almost four times as high (\$1.20 vs. \$4.69)? And why should General and Administrative expenses be more than twice as high per line than in the default case (\$2.15 vs. \$4.37)?

⁸ See Board Submission at 2-3 (Item No. 6).

⁹ The default value for all outside plant expense categories is \$2.76; the values used by the Board for those categories sum to \$5.23, nearly double the default value. The only other cost category where the value used by the Board is actually lower than the default is Account 6790, Uncollectibles. The default value is an expense of \$0.17 per line per month; based on PRTC data, the Board proposes a value of zero.

To make matters worse, a substantial fraction of the total amount by which the Board's figures exceed the default cannot be related to specific activities. As noted above, the Board's proposed per-line expenses total \$26.08, versus a default value of \$11.34. Nearly half the \$14.74 increase — 45.3% — is driven by the increases in only three categories: General Support Expense (increase of \$3.49); General & Administrative Expense (increase of \$2.22); and Services Expense (increase of \$0.97).

Again, it would not surprise Centennial to learn that PRTC's actual operations have been extremely inefficient as compared to the model's default values, which presumably represent some attempt to capture a reasonable estimate of efficient forward-looking economic costs. The Commission, however, has required states to develop universal service support estimates based on such forward-looking costs.¹⁰ At the same time, states are forbidden to rely on an incumbent local exchange carrier's embedded costs in establishing universal service support estimates.¹¹

The figures presented by the Board practically proclaim that the Board has disregarded these requirements and essentially adopted some version of PRTC's historical costs as representative of the costs that would be incurred by an efficient carrier on a forward-looking basis. It follows that the Commission may not properly rely on the per-line expense figures submitted by the Board in developing an appropriate level of federal universal service support for Puerto Rico. Instead, the Board should either reject the Board's submission on these points or, at a minimum, require the Board to provide for public comment a documented and reasoned explanation of why the forward-looking per-line expenses that an efficient telephone company in Puerto Rico would incur would be so far above the default values in the BCPM.

¹⁰ See *Universal Service Order* at ¶¶ 224-26.

¹¹ See *id.* at ¶¶ 227-28.

3. Conclusion.

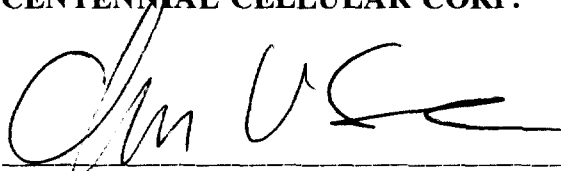
The Board has submitted adjustments to the BCPM that appear to violate the established criteria for state-specific cost studies. The high percentage of "toll" calls that PRTC apparently experiences reflects PRTC's small local calling areas, not any underlying cost differences between calls that are actually "local" or "toll" in a network engineering (*i.e.*, cost-related) sense. Moreover, the cost increases (as compared to default values) that the Board has proposed in many expense categories are based not on any actual assessment of the forward-looking costs that would be experienced by an efficient telephone company in Puerto Rico but, instead, appear to be based on PRTC's actual — and inefficient — historical, embedded costs.

In these circumstances, the Commission must reject the Board's submission. The simplest course would be for the Commission to establish universal service support levels for Puerto Rico based on the default values of the BCPM, perhaps accepting some of the Board's more modest adjustments. At a minimum, however, the Commission should require the Board to provide for public review and comment a reasoned explanation of how the figures actually proposed by the Board comply with the relevant criteria.

Respectfully submitted,

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June 25, 1998